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SUBJECT: CROATIAN COMPETITION AGENCY: NO CHOICE BUT TO
CLOSE SHIPYARDS

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¶1. (SBU) Summary: The GOC and EU continue to negotiate the terms for privatizing Croatian shipyards - one of the key remaining challenges in Croatia's EU accession process. According to the head of the Croatian Competition Agency, the GOC has now proposed selling a 50 percent stake in Uljanik, the best performing of the enterprises (a previous plan to offer up 25 percent was rejected by the EU as insufficient). While Croatia remains reluctant to give up its belief that its shipyards can be a successful "national champion" industry, the EU remains skeptical any of the shipyards are viable without subsidies. The EU has even begun investigating the terms of some of the orders from Croatian companies currently keeping the shipyards afloat. End summary.

¶2. (U) On May 18, Olgica Spevec, head of the Croatian Competition Agency, gave Econoffs an update on shipyard privatization. In late 2008, the GOC presented a proposal to the EU by which the GOC would offer four of the shipyards for a price of 1 HRK (\$0.20) each in a public tender process and ask potential buyers to specify how much of the yard's credit liabilities they would assume (reftel). The GOC would also impose certain conditions on the sales. For Uljanik in Pula, the best performing of the shipyards, the GOC proposed a phased process, first issuing a tender for a 25 percent stake, then offering 25 percent plus one share to employees, and then putting an additional 25 percent on the market for investors.

¶3. (SBU) The EU rejected the proposal and pushed back on some of the conditions the GOC would like to impose for all of the shipyards, such as requiring buyers not to convert the properties out of shipbuilding. Spevec said, however, the main area still being negotiated is the plan for Uljanik. Although Uljanik has been the best performing of the shipyards, the EU now recognizes that even Uljanik would not be a viable enterprise without significant state aid. Spevec commented that the difference between Uljanik and the other shipyards is that Uljanik has known how to use the subsidies it has received. She said no Croatian wants to accept that even Uljanik is not a strong, successful enterprise, as this would leave Croatia without any shipbuilding industry at all. EU officials insist, however, that any private owner must be able to make key decisions about the future of the enterprise, and they cannot do so with just a 25 percent stake. Deputy Prime Minister Polancec has reportedly told the EU that he would agree to issuing a tender for a 50 percent stake and is awaiting their comment.

¶4. (SBU) While the negotiations continue, several of the shipyards have received orders from Croatian ship lines that will keep them operating for another couple years. Spevec said, however, the EU is suspicious of the conditions under which these deals were made and is now investigating. Spevec said, as hard as it may be, Croatsians will have to accept

that economic viability and leveling the playing field (i.e., removing state subsidies) are what matters to the EU in this process; European Commissioner for Competition Neelie Kroes does not want to hear about the importance of "national champion" industries. Spevec said other European countries have had to close non-competitive shipyards, and Croatia will have to do the same. She added that given the current climate, finding investors for any of the shipyards may prove to be the biggest problem of the whole endeavor, especially if restrictions remain on converting the yards to other activities.

15. (SBU) COMMENT: With the prominence and immediacy of the Slovenian border dispute taking up many headlines, the continuing crisis in shipbuilding has not been widely reported of late. What is clear, however, is that even if the border issue is resolved and accession progress gets back on track, tough negotiations and decisions remain over the future of Croatian shipbuilding, and they will take place in perhaps the worst possible economic circumstances. As long as the EU negotiating process remains blocked by Slovenia, it is unlikely that the Croatian government will be able to muster the political will needed to take the other difficult decisions that are part of EU accession. END COMMENT.
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